

BEFORE THE STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES  
OFFICE OF ADMINISTRATIVE LAW

|                                  |                                  |
|----------------------------------|----------------------------------|
| IN THE MATTER OF THE PETITION OF | )                                |
| APPLIED WASTEWATER MANAGEMENT,   | ) BPU Docket No. WR03030222      |
| INC. FOR APPROVAL OF AN INCREASE | ) OAL Docket No. PUCRS 02351-03S |
| IN RATES FOR SERVICE             | )                                |

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**DIRECT TESTIMONY AND EXHIBITS OF BRIAN KALCIC  
ON BEHALF OF THE  
NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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**SEEMA M. SINGH, ESQ.**  
**Ratepayer Advocate**

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1   **Q. Please state your name and business address.**

2   A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.

3

4   **Q. What is your occupation?**

5   A. I am an economist and consultant in the field of public utility regulation, and principal of  
6   Excel Consulting. My qualifications are described in the Appendix to this testimony.

7

8   **Q. On whose behalf are you testifying in this case?**

9   A. I am testifying on behalf of the New Jersey Division of the Ratepayer Advocate  
10   ("Ratepayer Advocate").

11

12   **Q. What is the subject of your testimony?**

13   A. I have been asked by the Ratepayer Advocate to review the rate structure proposals filed  
14   by Applied Wastewater Management, Inc. ("AWMI" or "Company") and to derive an  
15   appropriate rate design that reflects the Ratepayer Advocate's recommended revenue  
16   requirement in this proceeding.

17

18   **Q. Please summarize your recommendations.**

19   A. Based upon my review of the Company's petition and existing rate structure, I  
20   recommend that Your Honor and the New Jersey Board of Public Utilities ("Board" or  
21   "BPU") order AWMI:

- 1       •     to implement the Ratepayer Advocate's recommended revenue distribution
- 2             providing for an overall decrease in total revenues of 3.23%;
- 3       •     to incorporate the Ratepayer Advocate's recommended rate design which reflects
- 4             a decrease in the Company's statewide fixed wastewater charge; and
- 5       •     to submit a detailed study of the feasibility of moving to a two-part residential
- 6             wastewater tariff in its next rate proceeding.

7

8       **AWMI Rate Structure / Rate Design**

9

10   **Q.   Mr. Kalcic, please describe AWMI's present rate structure.**

11   A.   The Company currently provides wastewater service to approximately 2,900 residential

12       and 3 non-residential customers. Residential customers are served via 2 separate rate

13       schedules which cover: 1) the Community On-Site Water and/or Wastewater System

14       ("COWS") rate area; and 2) the Homestead rate area. Residential customers served via

15       the COWS rate schedule currently pay a flat annual rate of \$904 for wastewater service.

16       Homestead customers are currently charged a flat annual rate of \$442.60. The

17       Company's non-residential customers are served via a separate two-part rate schedule

18       (i.e., one containing a fixed charge and a consumption charge) and currently pay an

19       average of \$1,167 per year for wastewater service.

20               In addition, AWMI provides water service to approximately 300 General

21       Metered Service customers and fire protection service to 8 private and 24 public fire

1 protection customers. Each of the above services are provided via separate, consolidated  
2 rate schedules.

3  
4 **Q. Did the Company perform a cost-of-service study for this proceeding?**

5 A. No, it did not.

6  
7 **Q. How then does AWMI propose to recover its requested revenue increase in this  
8 proceeding?**

9 A. The Company proposed revenue distribution is shown in Schedule BK-1. Overall,  
10 AWMI is proposing to increase its Homestead wastewater charge approximately 94% in  
11 order to move the rate towards parity with its COWS wastewater charge. All other rate  
12 schedules would receive an across-the-board residual increase of approximately 31%  
13 under the Company's proposal.

14  
15 **Q. Do you agree that the Company's COWS and Homestead wastewater charges  
16 should be moved toward parity in this proceeding?**

17 A. Yes, I do.

1   **Q.   Mr. Kalcic, what is your recommendation with respect to the apportionment of**  
2       **the Ratepayer Advocate’s recommended revenue adjustment in this proceeding?**

3   A.   I recommend that individual rate class revenue levels be adjusted as shown in Schedule  
4       BK-2.

5  
6   **Q.   Please discuss how you arrived your recommended revenue distribution.**

7   A.   Mr. Henkes is recommending an overall revenue decrease of \$73,536 or 3.23%. Given  
8       the size of the Ratepayer Advocate’s recommended decrease and the absence of a class  
9       cost-of-service study, I recommend assigning the entire decrease of \$73,536 to the  
10      Company’s COWS wastewater division. Such an approach would result in a COWS  
11      division decrease of 4.42% as shown in line 1 of Schedule BK-2.

12  
13   **Q.   Have you developed rates to implement your recommended revenue distribution?**

14   A.   Yes. Schedule BK-3 shows my recommended rate design and proof of revenue. As  
15      shown on Schedule BK-3, line 1, page 1 of 2, my recommended COWS wastewater  
16      charge is \$864.06 per year. All other rates are unchanged in Schedule BK-3.

17  
18   **Q.   Has the Company proposed any increase in its Miscellaneous Service charges**  
19      **contained in Rate Schedule No. 7?**

20   A.   No. Likewise, I recommend that all such charges remain unchanged.

1   **Q.   Mr. Kalcic, do you have any other comments regarding the Company’s present**  
2       **wastewater rate structure?**

3   A.   Yes, I do. As shown on page 1 of Schedule BK-3, the Company currently maintains a  
4       two-part rate schedule for its non-residential wastewater customers. However, residential  
5       wastewater customers are served from a one-part rate schedule – one consisting of a flat  
6       annual fee without a separate charge related to water usage. As a result, all residential  
7       customers within a given rate area pay an identical annual wastewater charge, regardless  
8       of water usage.

9

10   **Q.   Is this type of outcome appropriate?**

11   A.   No. The above outcome produces inequities within the residential class. Specifically,  
12       since one may expect the total amount of a household’s monthly effluent to be positively  
13       correlated with its water usage, larger than average residential water users are subsidized  
14       by smaller than average users under the Company’s current one-part rate.

15               A two-part residential wastewater tariff could begin to address this inequity by  
16       making a household’s total annual wastewater bill a function of its total water usage.

17

18   **Q.   What do you recommend?**

19   A.   I recommend that the Board order the Company to submit a detailed study of the  
20       feasibility of moving to a two-part residential wastewater tariff in its next rate proceeding.

21       At a minimum, the study should include an analysis of: 1) all costs (i.e., both one-time and

1 ongoing) associated with developing and maintaining such a billing structure; and 2) the  
2 appropriate split of the residential wastewater revenue requirement between a fixed  
3 charge and consumption charge. In addition, AWMI should provide a detailed estimate  
4 of the timetable necessary to implement a two-part tariff, should the Board decide to  
5 adopt this type of residential rate at the conclusion of the Company's next base rate  
6 proceeding.

7  
8 **Q. Does this conclude your direct testimony?**

9 **A. Yes.**

**APPLIED WASTEWATER MANAGEMENT, INC.**

Company Proposed Distribution of its  
Requested Adjustment in Total Revenue  
(Test Period Ending June 30, 2003)

| Line<br>No. | Description              | Actual<br>12 Months Ended<br><u>06/30/02</u><br>(1) | Company<br><u>Adjustments</u><br>(2) | Company<br>Pro Forma<br><u>Revenue</u><br>(3) | Proposed<br><u>Increase</u><br>(4) | Company<br>Proposed<br><u>Revenue</u><br>(5) | Percent<br><u>Increase</u><br>(6) |
|-------------|--------------------------|---|--------------------------------------|---|------------------------------------|--|-----------------------------------|
| 1           | Sewer - COWS             | \$ 1,362,735  | \$ 301,529                           | \$ 1,664,264                                  | \$ 508,483                         | \$ 2,172,747                                 | 30.55%                            |
| 2           | Sewer - Homestead        | 0   | 476,641                              | 476,641                                       | 445,134                            | 921,775                                      | 93.39%                            |
| 3           | GMS Water                | 142,014   | (40,098)                             | 101,916                                       | 31,231                             | 133,147                                      | 30.64%                            |
| 4           | Private Fire Protection  | (159)   | 1,759                                | \$1,600                                       | 490                                | 2,090  | 30.63%                            |
| 5           | Public Fire Protection   | 2,575   | 2,225                                | 4,800   | 1,470                              | 6,270  | 30.63%                            |
| 6           | Other Operating Revenues | -   | -                                    | -   | -                                  | -  |                                   |
| 7           | Rounding                 | <u>-</u>  | <u>-</u>                             | <u>-</u>                                      | <u>\$ 982</u>                      | <u>\$ 982</u>                                |                                   |
| 8           | Total Operating Revenues | <u>\$ 1,507,165</u>                                 | <u>\$ 742,056</u>                    | <u>\$ 2,249,221</u>                           | <u>\$ 987,790</u>                  | <u>\$ 3,237,011</u>                          | 43.92%                            |

|         |             |             |           |              |           |
|---------|-------------|-------------|-----------|--------------|-----------|
| Source: | Exhibit P-2 | Exhibit P-2 | (1) + (2) | Exhibit P-2  | (3) + (4) |
|         | Schedule 5  | Schedule 5  |           | Schedule 5   |           |
|         |             |             |           | and RAR-RD-1 |           |



**APPLIED WASTEWATER MANAGEMENT, INC.**

Ratepayer Advocate Recommended Distribution of its  
 Recommended Adjustment in Total Revenue  
(Test Period Ending June 30, 2003)

| Line<br>No. | Description              | Company<br>Pro Forma<br>Revenue<br>(1) | Recommended<br>Adjustments<br>(2) | Recommended<br>Pro Forma<br>Revenue<br>(3) | Recommended<br>Increase<br>(4) | Recommended<br>Final<br>Revenue<br>(5) | Percent<br>Increase<br>(6) |
|-------------|--------------------------|--|-----------------------------------|--|--------------------------------|--|----------------------------|
| 1           | Sewer - COWS             | \$ 1,664,264                           | \$ -                              | \$ 1,664,264                               | \$ (73,530)                    | \$ 1,590,734                           | -4.42%                     |
| 2           | Sewer - Homestead        | 476,641                                | 0                                 | 476,641                                    | 0                              | 476,641                                | 0.00%                      |
| 3           | GMS Water                | 101,916                                | 25,466                            | 127,382                                    | 0                              | 127,382                                | 0.00%                      |
| 4           | Private Fire Protection  | 1,600                                  | 0                                 | \$1,600                                    | 0                              | 1,600                                  | 0.00%                      |
| 5           | Public Fire Protection   | 4,800                                  | 0                                 | \$4,800                                    | 0                              | 4,800                                  | 0.00%                      |
| 6           | Other Operating Revenues | -                                      | -                                 | -  | -                              | -                                      |                            |
| 7           | Rounding                 | <u>-</u>                               | <u>-</u>                          | <u>-</u>                                   | <u>\$ (6)</u>                  | <u>\$ (6)</u>                          |                            |
| 8           | Total Operating Revenues | <u>\$ 2,249,221</u>                    | <u>\$ 25,466</u>                  | <u>\$ 2,274,687</u>                        | <u>\$ (73,536)</u>             | <u>\$ 2,201,151</u>                    | -3.23%                     |

Source:

Exhibit P-2  
 Schedule 5  
 Column 3

Sch. RJH-6

(1) + (2)

(5) - (4)

Sch. BK-3

**APPLIED WASTEWATER MANAGEMENT, INC.**

Ratepayer Advocate Recommended Rates  
and Proof of Revenue  
(Test Period Ending June 30, 2003)

| Line No.        | Meter Size           | Test Period Customers | Test Period Bills | Present   |                | Recommended |                | % Increase |
|-----------------|----------------------|-----------------------|-------------------|-----------|----------------|-------------|----------------|------------|
|                 |                      |                       |                   | Rate      | Revenue        | Rate        | Revenue        |            |
| Sewer Service   |                      |                       |                   |           |                |             |                |            |
| Residential     |                      |                       |                   |           |                |             |                |            |
| 1               | All Statewide        | 1,841                 | 1,841             | \$ 904.00 | \$1,664,264    | \$ 864.06   | \$ 1,590,734   | -4.42%     |
| 2               | Homestead            | 1,058                 | 1,058             | \$ 442.60 | \$468,271      | \$ 442.60   | \$468,271      | 0.00%      |
| 3               | Country Walk         | 11                    | 11                | \$ 442.60 | <u>\$4,869</u> | \$ 442.60   | <u>\$4,869</u> | 0.00%      |
| 4               | Subt Residential     |                       |                   |           | \$2,137,404    |             | \$2,063,874    | -3.44%     |
| Non-Residential |                      |                       |                   |           |                |             |                |            |
| Fixed           |                      |                       |                   |           |                |             |                |            |
| 5               | 5/8                  | -                     | -                 | \$ 44.26  | \$0            | \$ 44.26    | \$0            | 0.00%      |
| 6               | 3/4                  | 3                     | 12                | \$ 66.39  | \$797          | \$ 66.39    | \$797          | 0.00%      |
| 7               | 1                    | -                     | -                 | \$ 110.65 | \$0            | \$ 110.65   | \$0            | 0.00%      |
| 8               | 1 1/2                | -                     | -                 | \$ 221.30 | \$0            | \$ 221.30   | \$0            | 0.00%      |
| 9               | 2                    | -                     | -                 | \$ 354.08 | \$0            | \$ 354.08   | \$0            | 0.00%      |
| Consumption     |                      |                       |                   |           |                |             |                |            |
| 10              | Per 1,000 gal.       |                       | 561               | \$ 4.8200 | <u>\$2,704</u> | \$ 4.8200   | <u>\$2,704</u> | 0.00%      |
|                 | Subt Non-Residential |                       |                   |           | \$3,501        |             | \$3,501        | 0.00%      |

**APPLIED WASTEWATER MANAGEMENT, INC.**

Ratepayer Advocate Recommended Rates  
and Proof of Revenue  
(Test Period Ending June 30, 2003)

| Line<br>No.             | Meter<br>Size  | Test<br>Period<br>Customers | Test<br>Period<br>Bills | Present   |                 | Recommended |                 | % Increase |
|-------------------------|----------------|-----------------------------|-------------------------|-----------|-----------------|-------------|-----------------|------------|
|                         |                |                             |                         | Rate      | Revenue         | Rate        | Revenue         |            |
| Water Service           |                |                             |                         |           |                 |             |                 |            |
| Fixed                   |                |                             |                         |           |                 |             |                 |            |
| 1                       | 5/8            | 299                         | 1,196                   | \$ 25.00  | \$29,900        | \$ 25.00    | \$29,900        | 0.00%      |
| 2                       | 3/4            | -                           | -                       | \$ 35.50  | \$0             | \$ 35.50    | \$0             | 0.00%      |
| 3                       | 1              | -                           | -                       | \$ 43.48  | \$0             | \$ 43.48    | \$0             | 0.00%      |
| 4                       | 1 1/2          | -                           | -                       | \$ 75.00  | \$0             | \$ 75.00    | \$0             | 0.00%      |
| 5                       | 2              | 4                           | 16                      | \$ 200.00 | \$3,200         | \$ 200.00   | \$3,200         | 0.00%      |
| Consumption             |                |                             |                         |           |                 |             |                 |            |
| 6                       | Per 1,000 gal. |                             | 26,618                  | \$ 3.5420 | <u>\$94,282</u> | \$ 3.5420   | <u>\$94,282</u> | 0.00%      |
| 7                       | Subt Water     |                             |                         |           | \$127,382       |             | \$127,382       | 0.00%      |
| Private Fire Protection |                |                             |                         |           |                 |             |                 |            |
| 8                       | Four Seasons   | 8                           | 32                      | \$ 50.00  | \$1,600         | \$ 50.00    | \$1,600         | 0.00%      |
| Public Fire Protection  |                |                             |                         |           |                 |             |                 |            |
| 9                       | Country Oaks   | 24                          | 96                      | \$ 50.00  | <u>\$4,800</u>  | \$ 50.00    | <u>\$4,800</u>  | 0.00%      |
| 10                      | Subt Fire      |                             |                         |           | \$6,400         |             | \$6,400         | 0.00%      |
| 11                      | Other Revenues |                             |                         |           | \$0             |             | \$0             | 0.00%      |

11 Subt Sewer Revenues

\$2,140,905

\$2,067,375

-3.43%

|    |                          |             |             |        |
|----|--------------------------|-------------|-------------|--------|
| 12 | TOTAL OPERATING REVENUES | \$2,274,687 | \$2,201,157 | -3.23% |
|----|--------------------------|-------------|-------------|--------|

## **APPENDIX**

### **Qualifications of Brian Kalcic**

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December, 1974. In May, 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University. The courses that he taught included Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc.. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In 1996, Mr. Kalcic founded Excel Consulting, a consulting practice which provides business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, Texas, and the Bonneville Power Administration.